British Columbia Lottery Corporation

Annual Report 1989

90-06168/

Chairman's Message 2

President's Message 4

Winners and Prizes 8

Financial Statements 10

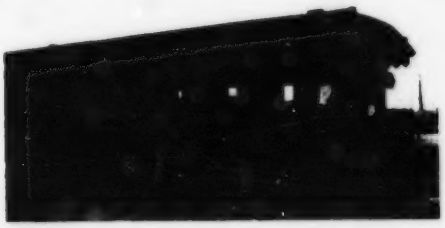
Notes to the Consolidated Financial Statements 13

Auditor's Report 16

Board of Directors 17

Lions helps make it happen for the volunteer fire department of Hyde Creek.

The Corporation's lovable mascot, **Lucky Dawg**, puts the squeeze on a **B.C. Lions** cheerleader.



Lions helps make it happen for the **Prince George** Railway Museum. The "Cariboo" car 1915 Pullman [illegible]

Scant years ago, half a billion dollars in B.C. Lottery sales seemed an unreachable target.

It was done, and more, in fiscal 1989.

Thanks to President, Guy Simonis and his dedicated staff, net profits reached close to $200 million.

How it was done was an intriguing question, as indicated by study visits to the B.C. Lottery organization by senior lottery executives from Ireland, Switzerland, Sweden, Australia, New Zealand, Michigan, Ohio, Illinois, Oregon and Washington.

This year the Corporation raised its public profile by: sponsorship of Olympic Hockey games in six B.C. communities; a spectacular presence at the B.C. Games in Nelson and Victoria; as well as with Lucky Dawg, the Corporation's mascot, who cheered the B.C. Lions at all home games.

What was done with the profits? A host of community projects — for health, senior citizens, heritage, culture, recreation, sports and other worthwhile causes — were funded through the office of the Provincial Secretary and the GO B.C. Fund.

Who sold the tickets? More than 2,000 retail entrepreneurs sell lottery tickets in B.C. They collectively earned $29 million in sales commissions — a healthy stimulus for the retail trade, indeed.

A year of record achievement, international recognition and continued high public acceptance, through an unblemished record of integrity in its operation.

I am proud of the Corporation's continued achievements.

Minister Responsible

Fiscal year 1989 saw $524 million in sales, an 11 per cent increase over the previous year and the first time that the half a billion dollar sales mark was passed.

Net revenue reached $195 million, up from $174 million in 1988, an increase of 12 per cent.

While the product line-up continues to diversify, each product has its own set of lottery players. A market segmentation study helped to further target new games to specific players.

Just as manufacturers of consumer products expect that the user will continue to buy the same brand, it is recognized that most people will pick one or two lottery games they will play regularly and that different games appeal to different people. Contrary to common belief, the average consumer does not buy every single game offered for sale. Thus; a distinctly segmented player base.

The national game *Lotto 6/49* continued to be the dominant game, with sales of $280 million (up 8.5%). *Lotto 6/49*'s appeal is simple; a large jackpot. Interest in the game was stimulated by ten $10 million draws in the fiscal year. A record jackpot of $15.5 million on April 1, 1989 beat the previous record of $14.2 million.

The *Extra* is an "add-on" game sold with *Lotto 6/49*. Four two-digit numbers are printed on every *Lotto 6/49* ticket. Players who say "Yes" and pay the extra $1 have their numbers registered for a top prize of $500,000. While only introduced in August of 1988, sales quickly reached $19 million.

Guy Simonis,
President

Due to declining sales, the $10 *Super Loto* — son of Loto Canada and its predecessor Olympic Lottery, the original millionaire's lottery — reached the end of its 14-year run in 1988 and was discontinued.

The $1 million prize previously offered by *Super Loto* was inherited by the *Provincial*. These changes resulted in *Provincial* sales of $23 million (up 21%).

To replace *Super Loto*, a $20 game was launched which offered a $5 million grand prize, million-dollar prizes, merchandise such as automobiles and trips, instant prizes and smaller draw prizes. *Special 88* featured a televised draw from Montreal on July 1, while the *Celebration 89* draw originated in Vancouver in January. Combined sales for the year reached $15 million.

While the game design of *Lotto 6/49* diverts most of the prize money to a big jackpot, *Lotto BC* is designed to return many small prizes — with a much smaller jackpot averaging several hundred thousand dollars. The game appeals to those who feel there should be more small prizes, rather than a large jackpot. Sales reached $11 million.

The game *BC Keno* is designed as a "do-it-yourself" lottery. Players can predetermine the prize level they would like to win and predetermine their own chances of winning. Hence the slogan, "You can win a little or a lot, by making it easy or not." This game provides a challenge for those who would like to assemble their own lottery game. The Corporation considers this to be one of the "future stars" in the lottery firmament. Sales were $20 million.

First introduced in B.C. in April, 1976, the *Express* has undergone many changes over the years but still yields close to $6 million from its faithful followers.

In June, British Columbia became the first jurisdiction to offer a lottery based on football. The objectives were: to introduce a sports lottery; to explore the market; and to establish a presence for the introduction of other sport lotteries. Next fiscal year, a redesigned *Punto* lottery will be offered for both football and hockey.

Sales of *Instant* games reached $118 million (up 13.5%). New designs and marketing strategies of *Instant* tickets were explored, for example the $1,000 game *"High Card"* with its playing card design, and a holiday season game featuring merchandise prizes.

Sales of *Breakopen* tickets increased by 42 per cent to $27 million. Introduced this year was a "Halfback" program, which returns half the purchase price to charitable organizations selling these popular mini-lottery games.

The Corporation distributes bingo paper as a service to more than 2,000 bingo licensees — annually, more than 1.2 billion cards (or faces). That's 400 bingo cards for every resident of B.C.

In summary, fiscal 1989 was a year of growth and success and all signs point to continued success in 1990.

Finance, administration, operations and security.

Vic Poleschuk
Vice President

Marketing, distribution and sale of lottery products in the province.

Michelle McBride
Executive Director, Marketing

Advertising, promotion, and marketing of lottery products and draws.

Barry Auliffe
Director, Marketing Support

Finance, administration, budgeting and prize administration.

Doug Penrose
Director, Finance and Administration

Computer operations, technical services and information systems.

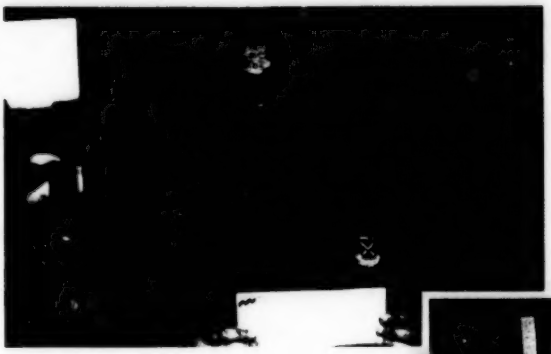
Rob Egan
Director, Information Systems

Employee relations including recruitment and selection, training and development and compensation and benefits.

Heather Brandon
Director, Employee Relations

Distribution and sale of lottery products through the Corporation's network of almost 3,000 retailers.

Chuck Hamilton
Director, Sales and Distribution



"My heart started pumping and I had to take a cold shower to calm down."
- Bernie Cleary, after discovering he had won $138,000 on Lotto 6/49.

"Hon, I'm sorry to wake you, but I've got all six numbers. You can go back to sleep now."
- Jack Evanoff of Surrey, informing his wife Gloria of their $2.5 million Lotto 6/49 win in November, 1988.

"I wasn't sure at first because my glasses were dirty and I cleaned them about five times."
- Victor Mowatt on his $1 million Provincial win.

It can change your life or just brighten your day, but no matter what the size of the win, everybody wants to be a lottery winner.

This past year, more than 30 million prizes were paid out to lottery winners in British Columbia. Those prizes amounted to almost $224 million. The dream of becoming a millionaire came true for 15 lucky lottery players during the year, with the top single prize of just over $5 million picked up by a group of nine people.

More Smaller Prizes

While public attention is most often drawn by large lottery wins of $1 million or more, the majority of prize money in British Columbia is paid to winners of smaller prizes. For example, those who won the jackpot prize on *Lotto 6/49* during the year took home a total of $31 million. But those who won on the subsidiary prizes won a total of $91 million — almost three times as much as the prize money taken home by jackpot winners. There were also almost 19 million prizes of from $1 to $10,000 paid out on the *Instant* game.

And B.C.'s lottery players also won a large share of merchandise prizes: three prizes on the $20 game (automobiles or trips), six cars on the *Express*, three cars on a special *Punto* bonus, 190 trips on the *Lotto BC* bonus, and almost 18,000 merchandise prizes on the *Holiday Surprize Instant* game.

Prize Fund

The prize fund is established by setting aside 45% or 50% of sales (depending on the game design). All prize claims are met from the prize fund and, if after the expiry of the one year claim period any funds remain unclaimed, this amount will be returned to the players in the form of bonus prizes or additional prizes.

Where the Money Goes

A total of $189.6 million from sales of lottery tickets in the province was transferred to the Government of British Columbia this past year for the B.C. Lottery Fund for medical research, seniors' groups, heritage projects, performing arts and culture, non-profit community and sports organizations and other special projects.

The British Columbia Lottery Corporation does not participate in the allocation of the Lottery Fund. To learn more about grants write to:
Lottery Grants Branch,
Ministry of the Provincial Secretary,
Parliament Buildings,
Victoria, B.C. V8V 1X4.

"The first thing I noticed was that I had the last two numbers right. I thought I'd won $20. Then I realized I had three numbers... then four, then five and so on. I sat there for a moment stunned."
- Brian Woods, on his $1 million Special 88 win.

March 31, 1989 (in thousands of dollars)

Cash				
Prize Funds	$	24,201	$	14,479
Other		7,712		10,364
Receivables (Note 3)		8,787		3,769
Prepaid expenses		2,186		1,690
Fixed assets (Note 4)		2,270		7,265
	$	45,156	$	37,567
Prizes payable	$	24,201	$	14,479
Payable to Interprovincial Lottery Corporation		652		903
Accounts payable and accrued liabilities		5,309		3,581
Deferred revenue		7,245		5,264
Due to Province of British Columbia		7,749		13,340
Share Capital (Note 5)		—		—
	$	45,156	$	37,567

Approved

Director

Director

March 31, 1989 (in thousands of dollars)

Balance, beginning of year	$	13,340	$	13,227
Net income		194,535		174,137
		207,875		187,364
Payments to Province of British Columbia during the year		195,236		166,473
Allocation of income to Government of Canada		4,890		7,551
		200,126		174,024
Balance, end of year	$	7,749	$	13,340

March 31, 1989 (in thousands of dollars)

Lottery Sales (Note 6)	$	524,230	$	469,639
Direct Expenses:				
Prizes	$	247,650	$	216,267
Retailer Commissions		28,797		25,628
		276,447		241,895
Sales less direct expenses		247,783		227,744
Operating Expenses:				
Data processing and network		11,689		10,924
Depreciation		4,995		10,956
Ticket printing		9,719		9,133
Bingo paper		3,140		2,589
Advertising, draws and promotions		10,940		7,985
Sales and distribution		7,227		6,833
Administration		5,538		5,187
		53,248		53,607
Net Income	$	194,535	$	174,137
Allocation of Net Income:				
Government of Canada (Note 7)	$	4,890	$	7,551
Province of British Columbia		189,645		166,586
	$	194,535	$	174,137

March 31, 1989 (in thousands of dollars)

Operations:		
Net income	$ 194,535	$ 174,137
Depreciation	4,995	10,956
Cash provided by Operations	199,530	185,093
Change in net trade balances	(3,541)	(3,620)
Decrease in prepaid expenses	(496)	1,193
Increase in prizes payable	9,722	5,188
Increase in deferred revenue	1,981	1,315
	207,196	189,169
Financing:		
Payments to Province of British Columbia	(195,236)	(166,473)
Payments to Government of Canada	(4,890)	(8,526)
	(200,126)	(174,999)
Investments:		
Acquisition of fixed assets	—	(1,009)
	—	(1,009)
	7,070	13,161
	24,843	11,682
	$ 31,913	$ 24,843

March 31, 1989 (in thousands of dollars)

The British Columbia Lottery Corporation was incorporated pursuant to the Company Act of British Columbia on October 25, 1984.

The Province has designated the Corporation as the authority to conduct and manage lottery games within British Columbia and to co-operate in the conduct and marketing of national and regional games with other Provinces of Canada.

The *Express*, *Instant*, *Lotto BC*, *BC Keno*, *Extra*, *Punto* and *Breakopen* games are conducted solely by the Corporation in the Province of British Columbia. In addition, the Corporation is the sole distributor of bingo paper in the Province of British Columbia.

The Corporation is the regional marketing organization for the *Provincial*, *Super Loto*, $20 Game and *Lotto 6/49* games in British Columbia. These games are joint undertakings by all provinces acting through the Interprovincial Lottery Corporation. The Interprovincial Lottery Corporation is incorporated under the Canada Business Corporations Act, and its shares are held by Her Majesty The Queen in right of the respective provinces.

The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles.

The consolidated financial statements include British Columbia Lottotech International Inc., a wholly owned subsidiary of the British Columbia Lottery Corporation.

The Corporation's policy on capital purchases is that any major purchase which has a future useful life beyond the current year and which will materially affect income in the year purchased, will be capitalized. These purchases include the cost of leasehold improvements, renovations and furniture of the Corporation's offices in Kamloops, Richmond and Victoria, major computer equipment purchases, all on-line gaming terminals and all components of the Corporation's sign and fixture program for placement at the on-line game retailers' locations.

The Corporation's capital assets are recorded at their original cost and are depreciated on a straight-line basis according to their estimated useful lives, as follows:

Leasehold improvements	5 years
Furniture and equipment	5 years
Computer equipment	3 years
On-line gaming terminals	3 years
Signs and fixtures:	
Computer	3 years
Non-computer	5 years

Sales are reduced by the retail value of free tickets redeemed by the retailers.

Revenue and expenses relating to draws held during the year ended March 31, 1989 are included in the statement of income on an accrual basis. Receipts from the sale of lottery tickets related to draws held subsequent to March 31, 1989 have been recorded as deferred revenue. Retailer commissions on these sales have been recorded as prepaid expenses.

The Corporation provides for prize expenses at approximately 50% of sales for all British Columbia games.

The prize liability accounts reflect expected prize payouts.

All unclaimed prizes from British Columbia lottery games are retained in a prize fund for one year from the announced date of the draw. Unclaimed prizes remaining after the one year claiming period are used for bonus prizes and bonus draw promotions in subsequent draws.

Prize expenses for Interprovincial Lottery Corporation games is British Columbia's proportionate share of prizes based on the number of tickets sold.

March 31, 1989 (in thousands of dollars)

Retailers	$ 7,839	$ 2,670
Other	948	1,099
Total	$ 8,787	$ 3,769

On-line gaming terminals	$ 15,119	$ 15,119	$ —	$ 692
Central system computer hardware	8,386	8,386	—	440
Leasehold improvements	8,283	6,602	1,681	3,811
Furniture and equipment	2,744	2,155	589	1,143
Signs and fixtures	2,858	2,858	—	1,179
Total	$ 37,390	$ 35,120	$ 2,270	$ 7,265

Authorized: 10,000 common shares without par value
Issued: 1 common share for $1.00

National Games		
Lotto 6/49	$ 279,511	$ 257,599
Super Loto	1,924	17,649
Provincial	22,652	19,350
$20 Game	15,496	—
	$ 319,583	$ 294,598
British Columbia Games		
Extra	$ 18,853	$ —
Punto	422	—
BC Keno	20,352	29,951
Express	5,784	7,052
Lotto BC	10,764	10,940
Instant	117,886	104,195
	174,061	152,138
Breakopen	26,878	19,421
Bingo Paper	3,708	3,482
	$ 204,647	$ 175,041
Total	$ 524,230	$ 469,639

The Interprovincial Lottery Corporation makes inflation adjusted payments to the Government of Canada as a result of an agreement between the Provincial Governments and the Government of Canada on the withdrawal of the Government of Canada from the lottery field. The Corporation remits British Columbia's share of the above payments to the Interprovincial Lottery Corporation. Payments under this agreement are estimated to be $5,040,000 for the year ended March 31, 1990.

The Corporation's share of the Interprovincial Lottery Corporation's operating expenses and interest revenues are reflected in these financial statements. Net income recorded from the Interprovincial Lottery Corporation was $235,000 for the year ended March 31, 1989 ($399,000 – 1988).

Long term office space leases will expire as follows:

Kamloops	1994
Richmond	1995
Victoria	1994

Minimum annual rental payments for the next five years are:

1989-1990	$823
1990-1991	$865
1991-1992	$865
1992-1993	$865
1993-1994	$865
1994 and subsequent	$795

The market value of pension plan assets is approximately $3,186,000 and estimated liabilities are approximately $2,886,000.

We have examined the consolidated balance sheet of the British Columbia Lottery Corporation as at March 31, 1989, and the consolidated statements of income, changes in amounts due to the Province of British Columbia, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989, and the results of its operations, and the changes in the amounts due to the Province of British Columbia, and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

June 2, 1989

Thorne Ernst & Whinney
Chartered Accountants

The Honourable Howard Dirks

Melvin H. Smith, Q.C.

Benjamin D. Leboe, C.A.

Allen R. Price, MAIBC

Guy Simonis

Head Office
74 West Seymour Street
Kamloops, British Columbia
V2C 1E2

Richmond
10760 Shellbridge Way
Richmond, British Columbia
V6X 3H1

Victoria
770 Hillside Avenue
Victoria, British Columbia
V8T 1Z6

The British Columbia Lottery
Corporation does not participate in
the allocation of the Lottery Fund.
To learn more about grants, write to:
Lottery Grants Branch,
Ministry of the Provincial Secretary,
Parliament Buildings,
Victoria, British Columbia, V8V 1X4